

INSIGHTS

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What We Think is Unique About Our Firm

SPONSORED CONTENT PROVIDED BY EDDIE NOWELL
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Research-Focused

South Atlantic Capital is an independent registered investment adviser registered with the State of North Carolina and the Commonwealth of Virginia.

We are a research-focused boutique investment manager investing client portfolios directly in 20 to 25 companies. We feel we spend more time on research and less time than other firms on client service and business development. We try to provide value to clients by being performance driven. For clients preferring more comprehensive services, we have relationships with a few well-regarded family offices.

Doing our own research allows us to have a good deal of conviction and patience in our holdings and helps avoid emotional mistakes driven by market volatility, which are so detrimental to the long-term returns of the average investor. Situations in which there is a disconnect between the person directly involved in research and the person making the investment decisions are more prone to emotional mistakes, in our view.

We don't invest in mutual funds or ETFs unless it's for clients who want fixed-income exposure. This means that, for equity-oriented investors, there aren't two layers of fees, which there often are at wealth advisers using mutual funds, so our fee structure – including very modest commissions which go to Charles Schwab who acts as our custodian – is generally lower than those instances in which there are two layers of fees.

GIPS Compliance

South Atlantic Capital Management Group, Inc. claims compliance with the Global Investment Performance Standards (GIPS). The standards are used when creating performance presentations that ensure fair representation and full disclosure of investment performance results and are a prerequisite for many institutional investors seeking investment managers. To assist in our efforts, we engage ACA Performance Services, a leading provider in the industry, for GIPS consulting and verification services.

South Atlantic Capital has been independently verified for the period of Jan. 1, 1992 to June 30, 2018. Verification assesses whether: (1) the firm has complied with all the composite construction requirements of the GIPS standards on a firm-wide basis; and (2) the firm's policies and procedures are designed to calculate and present performance in compliance with the GIPS standards.

Our Core Equity Composite has been examined for the periods of Jan. 1, 1992 to June 30, 2018. Since the length of the examined track record for this composite includes many downturns such as 2000-02 and 2008-09, it gives potential clients a good indication of how our strategy has fared over a full cycle of good markets and bad which both happen.

PSN InformalS

We also input our GIPS verified returns onto PSN's database. PSN is one of the largest databases in the country used by institutions and high net-worth individuals seeking investment managers. We subscribe to their analytics, which allows us to show our potential clients how our performance ranks versus other managers on their database using similar strategies.

They track our returns gross of fees and net of fees against other large cap managers on the database, as well as our risk metrics, such as the lower volatility of our returns versus the market since inception (which we don't consider that important) and our downside capture ratio, which measures how we do versus the market in down quarters, which we do consider important.

Investment Philosophy

First, we are not market timers, which we believe is a failed strategy when you look at how badly the 20-year return for the average investor has trailed the market according to comprehensive studies by Morningstar and Dalbar Associates. We look to make long-term investments in 20 to 25 companies with durable competitive advantages, as evidenced by their returns on capital but with a defensive bias.

We don't try to time markets but assume something bad will eventually happen

and believe it's very important to be disciplined about investing in companies that can withstand the downturns and have capital to deploy during the downturns when prices are attractive.

We seek an expected return that makes it difficult to find investments that meet our criteria when investor optimism is excessive. As a result, we tend to underperform in markets with high investor optimism, such as 1998-99 and 2006-07 but during the market's 37.6-percent cumulative loss from 2000-02 our composite had a positive return, as it did during the market's 19.7-percent loss from 2008-09.

Recent Performance

For the year that ended Dec. 31, 2018, our returns rank in the top one percent gross of fees and top three percent net of fees versus the other 234 large cap core managers on PSN's database. Other managers on the database include JPMorgan, Alliance Bernstein, Goldman Sachs, UBS Asset Management and Deutsche Bank.

What's valuable about the results is that the defensive bias of our investment philosophy and process has again shown its consistency by performing well in a down market. In our view, the most important statistic for our clients – or anyone's client – is long-term returns, which, by being disciplined about our process, our net returns since inception rank in the top one percent for all large cap managers on the database for the full period even though being compared to institutional managers with larger account sizes and therefore lower fees.

Much of that is due to our downside protection, which also ranks in the top one percent since inception. In our view, the downside protection has been very influential in clients staying invested and capturing significant long-term capital appreciation.

Unfortunately, due to limited print space and required GIPS and SEC disclosures, we can't discuss specific performance numbers but you can obtain a compliant presentation of our performance and the firm's list of composite descriptions by contacting Florence Ellen at florenceellen@southatlanticcap.com or (910) 763-4113.

Mr. Nowell has over thirty years of experience in the finance business. Prior to founding South Atlantic Capital he worked in the leveraged lending department of Bankers Trust Company, New York as an Assistant Vice President. His primary responsibility was arranging bank financing for leveraged buyouts led by Kohlberg, Kravis, Roberts & Company. During graduate school he interned with Merrill Lynch's Capital Markets Group in New York. Later he served as an institutional fixed income salesman for Carolina Securities/Prudential Bache Securities and worked with Fox, Graham, and Mintz Securities. Mr. Nowell

graduated from the University of North Carolina with a B. S. in Economics and received his MBA from the University of Virginia.

Disclaimer- Past Performance is no guarantee of future results. Nothing in this article should be construed as investment advice of any kind. Consult your investment adviser before making any investment decision.